Statement of PPL Montana
Before the Natural Resources and Energy Committee
Of the Montana State Senate
Regarding House Bill No. 25
March 30, 2007

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Mr. Chairman and members of the Committee:

My name is David Hoffman, Manager of External Affairs for PPL Montana.

House Bill 25 is a very complicated bill that represents major policy shifts that are easily identifiable, on the one hand, and not easily identifiable, on the other.

The bill is touted as a "re-regulation bill" that would allow the regulated utility, NorthWestern Energy, to re-integrate into its customer rate base generation assets it chooses to build, buy or lease. It also allows the PSC to "pre-approve" projects the utility brings before it, and it eliminates all customer choice except those customers who currently exercise choice and choose to remain at market. After pre-approval, NorthWestern would then be able to charge customers for all the costs of such generating assets, whether those costs were prudent or imprudent. Other consequences, perhaps unintended, that this sweeping piece of legislation may create which adversely impact Montanans are unknown.

In addition to the almost total elimination of customer choice, there are several other issues to consider:

1. **It adopts for the first time in Montana history a desperate regulatory policy of pre-approval, and with it the potential disaster of shifting risk of unforeseen costs onto the consumer. Building new generation is costly and can involve significant cost increases and cost overruns. Environmental costs and construction costs have increased significantly and will likely continue to increase. Pre-approval gives NorthWestern a "blank check," and places the risk of these cost increases and overruns on ratepayers and insulates NorthWestern from any risk whatsoever for any cost increases or overruns;**

2. **There is no urgency to act now on a bill that so dramatically alters Montana's utility laws. NorthWestern has already contracted for a vast**

majority of its electricity supply needs well into the future, from a variety of suppliers;

3. **House Bill 25 will increase, not decrease, costs for electric consumers in Montana. Montanans know that government regulation of industry will likely increase, not decrease, costs for consumers rate base.**

4. **The process of moving this bill closely parallels SB 390, passed in 1997, that was primarily written by the utility and which moved through the legislature with split PSC support, massive lobbying efforts by MPC, tons of amendments that very few people could explain, and numerous unintended and adverse consequences. For example, this bill was heavily amended (77 amendments in a single motion, among others) in the House Federal Relations, Energy and Telecommunications Committee, without adequate time to review and understand the purpose of such amendments; and**

5. **The future of NorthWestern Energy is a mystery. It has submitted a proposal to the PSC for acquisition by an Australian investment firm. We do not know what this utility will look like twelve months from now, let alone five years from now.**

Interestingly, in this debate PPL Montana has been held up as a villain by NorthWestern and certain of PSC Commissioners, and PPL is cited as one of the main reasons this bill is needed. They claim that PPL Montana has a monopoly on supply available to NorthWestern, and that price increases have been unreasonable—and further, this bill will fix the perceived problem.

These monopoly claims are wrong and have been rejected flatly by the appropriate government agency. Also, NorthWestern has conducted several procurements for supply, where they touted the large number of bidders and robust competition they experienced. In a publication on the NorthWestern website posted last July, NorthWestern touted the new 7-year contract with PPL Montana as being very positive for Montana consumers. This publication defends the contract, which provides about one-third of its supply, as providing "rate certainty and stability" for customers. Further, NorthWestern claims the PPL contract represents a "significant discount to forward market prices" and provides NorthWestern with the "flexibility to diversify."

Now, a mere six months later, NorthWestern is trying to take a completely different position. But that shouldn't be surprising, in light of a recent commentary in the Billings Gazette where NorthWestern's Chairman wrote "We've said it before, and we'll say it again, our current shareholders do not have Montana consumers' interests at heart."

Adoption of the major changes to the electricity laws in HB 25 calls for a cautious and considered approach. For the sake of all Montanans and our state's economy, we must be sure that any changes create economic benefit. Simply allowing the return to cost-of-service regulation will not create corresponding lower supply prices, and everyone agrees it would not mean a return to conditions that existed before 1997.

Throwing out customer choice and electric competition in favor of traditional cost-of-service regulation through HB 25 is not the answer. If you truly want to act to promote the lowest cost supply of electricity for consumers, you should act to expand – not eliminate – retail customer choice and help to spur a more vibrant, competitive retail market. Vibrant competitive retail markets, along with the already vibrant and competitive wholesale markets, will produce greater benefits to consumers over the long run.

In conclusion, I ask that the members of this Committee pause to give this bill, and its implications for customers, careful consideration. And, then I encourage the Committee to give this bill a "do not pass" recommendation. Thank you.

David Hoffman
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NorthWestern Energy

NorthWestern Energy/PPL Montana:
2007-2014 Power Supply Agreement

FACT SHEET:
July 2006

NorthWestern Energy is the Default Supplier for its electricity customers in Montana who do not purchase their own source of supply. This is a very important obligation and one that we take very seriously. The 2005 Electric Default Supply Resource Procurement Plan outlines the current and future procurement activities that we believe are necessary for providing this service. The role of the Default Supplier has changed considerably since it was first implemented almost 10 years ago. What was once envisioned as a short-term "provider of last resort" for an unknown number of customers is now known to be a long-term commitment to providing all of our customers with reliable and affordable electricity supply. We have made substantial progress in recent years to move to a long-term planning horizon. The most recent accomplishment is a new agreement with PPL Montana, which will take effect July 1, 2007 upon the expiration of the existing contracts.

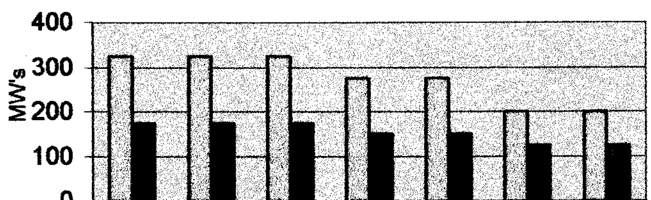
This Fact Sheet provides on overview of NorthWestern Energy's Power Purchase Agreement (Agreement) with PPL Montana, including key provisions, benefits, cost and rate/billing impacts, and a brief description of our future electricity procurement plans. In the event of any inconsistency between what is provided in this Fact Sheet and the confirmation and standard form agreement, the confirmation and standard form agreement apply.

PPL Montana - Power Supply Agreement

Term: July 1, 2007 through June 30, 2014

Quantity: Firm blocks of declining on-peak/off-peak power over the seven-year term of the Agreement, as illustrated in the following chart. Total contract volume is 13.7 million megawatt hours (MWh).

Quantities



	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
On Peak	325	325	325	275	275	200	200
Off Peak	175	175	175	150	150	125	125

Prices: The price for each product is fixed on a quarterly basis. The price will increase, on average, 2.3 percent per year over the life of the contract. The following table shows the prices starting July 1 of each year under the Agreement:

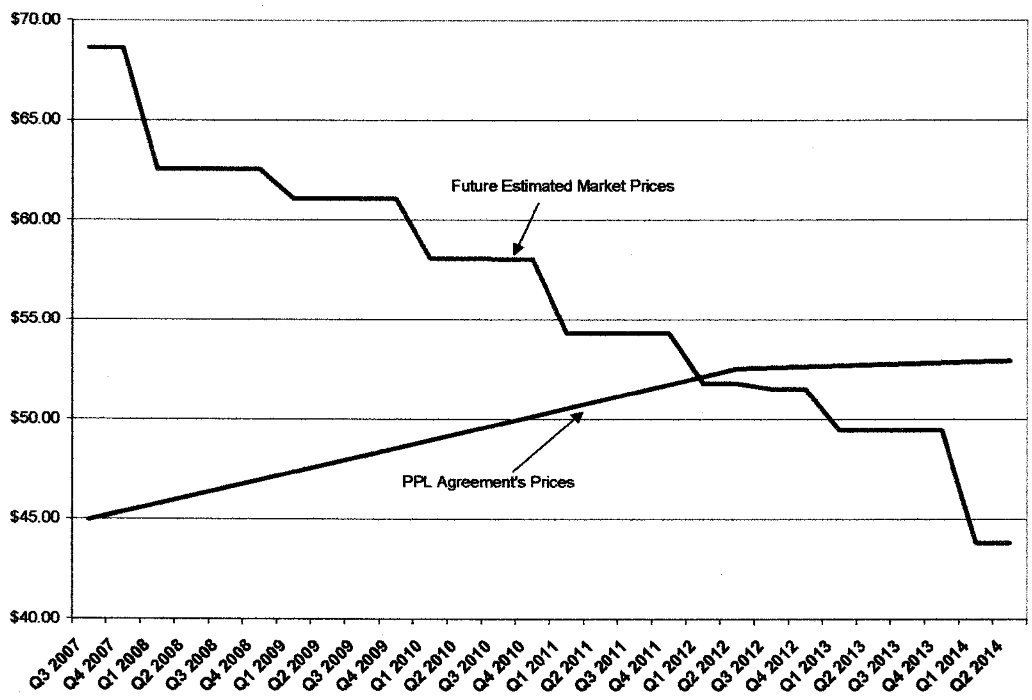
Date	Price/mWh
July 1, 2007	$44.95
July 1, 2008	$46.55
July 1, 2009	$48.15
July 1, 2010	$49.75
July 1, 2011	$51.35
July 1, 2012	$52.60
July 1, 2013*	$52.80

**Ending contract price in 2014 is $52.95*

Benefits: This seven-year Agreement includes a number of benefits. They are:

- Helps provide customer **rate certainty** and rate stability over the next several years.
- The Agreement is priced substantially below current electric market levels. It represents a **significant discount** to forward market prices.

Price per MWh



This graph compares the Agreement to today's estimated forward market prices on a $/MWh basis.

- Provides a **significant portion** of the near and mid-term Default Supply energy needs.
- This Agreement acts as a "bridge", allowing NorthWestern Energy the **flexibility to diversify** its resource mix and reduce its reliance on any one provider. For example, PPL Montana currently

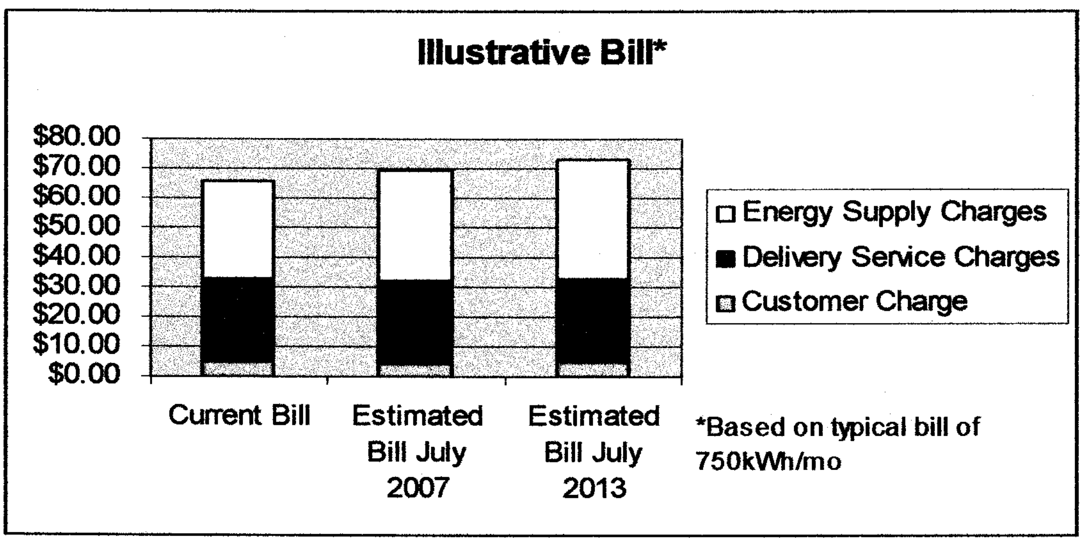
provides approximately 55-percent of the Default Supply energy needs. In 2007, the number will be 37-percent and is expected to be roughly 23-percent by 2014.

- The Agreement is **consistent** with NorthWestern Energy's 2005 Electric Default Supply Resource Procurement Plan filed with the Montana Public Service Commission (MPSC) in December.
- The pricing structure offers **specific advantages** to NorthWestern Energy's customers:
    - The steep discount to current market early in the Agreement helps mitigate customer "rate shock". The initial discount is over $23/MWh compared to the Mid-Columbia 2007 trading market.
    - While the affect of this new agreement for typical residential electric customers is expected to result in an increase of approximately 7-percent in their total bill, without this stepped-pricing structure, the impact would've been much greater. The estimated increase is based on a proposed rate mitigation plan that NorthWestern proposed in its recent annual Electric Default Supply tracker filing and estimated market conditions in 2007-2008.
    - The approximate amount of the overall discount over the life of the agreement is $100 – 125 million based on current market prices.
    - Out-year pricing is approximate to the current estimated cost to build new generation.
- Reliability is **assured** – we are purchasing "firm" power.
- Underlying price risks related to environmental issues, property taxes and so on are **retained** by PPL Montana.
- **Mitigates** market price volatility.

NorthWestern Energy has executed the Agreement, which will be evaluated by the Montana Public Service Commission (MPSC) at some point in the future.

The Relation of Default Supply Costs to Customer Bills

The following table illustrates the estimated impact of this Agreement on a typical residential customers' bill beginning July 1, 2007 and on July 1, 2013, compared to today's bills:



**Note: Future customer rate estimates are based on information available today and are meant to be illustrative only. Future rates will depend on the actual energy costs in place at the time. NorthWestern Energy does not earn a profit on the Energy Supply Charges component of the bill.*

Next Steps

The addition of the new PPL Montana Agreement, along with the other contracts assumed to be in the portfolio, will provide about 70 percent of the necessary electricity to meet customers' needs in 2007/2008. To further augment the electricity portfolio, NorthWestern Energy plans to conduct the previously announced electricity auctions and explore additional bi-lateral negotiations for supply needs with terms of up to 5-years. NorthWestern anticipates that the first auction will be held this fall, followed by a second auction, if necessary, in the spring of 2007.

NorthWestern will also begin to consider the acquisition of long-term, rate-based generation resources in the spring of 2007, once the results of the auctions are fully implemented into the portfolio and any legislative changes are known. In addition, NorthWestern will continue to actively exploring market opportunities with other energy developers, financial institutions, utilities, and other power marketers for resources.

For additional information about NorthWestern Energy or our Default Supply Electricity Procurement Plan:

www.montanaenergyforum.com
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NWE responds to editorial on proposed sale to BBI

By MIKE HANSON
NorthWestern Energy

After reading the Billings Gazette's recent opinion (Feb. 8) regarding the sale of NorthWestern to Babcock and Brown Infrastructure, we're not only disappointed — we're dismayed. Why? Despite two visits to the editorial board, the board has announced a fundamental policy position — not shared by anyone else involved in the proceedings — that is premised on factual errors and misleading statements. Again, here are the facts:

If the Montana Public Service Commission should "just say no" to the sale, how are Montana consumers better served by the alternative? [redacted] BBI has clearly stated it is a long-term investor that wants to invest in Montana's growth and economic development.

The Gazette falsely asserts that NorthWestern would not be subject to all of the same U.S. SEC reporting requirements if it were purchased by BBI. This is simply not true. NorthWestern will continue to have publicly traded debt in the U.S. and, therefore, we're subject to the same filing requirements that we make today with the exception of shareholder solicitations (proxy statements). In addition, all of this same financial information is filed annually with federal and state regulators.

The Gazette mocks BBI's track record as a long-term investor. While it's true that BBI was formed in 2002, the company was created by Babcock and Brown, which was formed more than 30 years ago in the U.S. BBI based its decision to purchase NorthWestern on a 40-year planning horizon, which should reassure our customers — a horizon our current shareholders certainly do not have.

To learn more

Public hearings on the proposed $2.2 billion sale of NorthWestern Energy, the largest electricity and gas distribution utility in Montana, to Babcock & Brown Infrastructure of Sydney, Australia, are scheduled for these cities in central and Eastern Montana:

- Billings, 6:30 p.m., Feb. 24, Montana State University-Billings, Lewis and Clark Room in the Student Union Building.
- Glasgow, 1 p.m., March 1, in the Elks Club.
- Havre, 7 p.m. March 8, Hill County Electric Co-op office.
- Lewistown, 2 p.m. March 5, Community Center.
- Great Falls, 7 p.m., March 5, MSU-College of Technology, Heritage Hall.

The Montana Public Service Commission is scheduled to begin formal hearings on the buyout proposal March 14 in Helena.

The Gazette attempts to draw parallels between this acquisition and NorthWestern's purchase of Montana Power in 2002 as a way of leading readers to believe that BBI is somehow destined to follow the same path. Most of BBI's other businesses have been in existence well over 50 years, and they are all financially healthy and growing. More importantly, NorthWestern is entirely protected from the activities of BBI's other businesses and, in fact, BBI itself. We call this "ring fencing." There is simply no way for history to repeat itself in this manner. This is another fact that has been shared repeatedly.

The Gazette states that the testimony of the Montana Consumer Counsel's witness was blacked out "in an ill-advised attempt to protect BBI" and implies that BBI blacked out the witness' testimony. In fact, the witness' testimony was blacked out by the MCC based on its understanding of the PSC's protective order. BBI and NorthWestern do not have the right to black out testimony of other intervenors, nor do the intervenors black out testimony provided by BBI and NorthWestern. The appeal filed by the Associated Press and the Gazette's State Bureau recognizes the fact that the testimony filed by BBI was "substantially less redacted (blacked out)" than the MCC testimony.

Interestingly, the Gazette praises itself for its role in making public previously blacked-out information submitted by BBI — and then apparently failed to read it. Had it done so, the paper would have understood that BBI and NorthWestern disagree with much of the analysis submitted by the MCC — a significant omission of fact from its editorial. We invite you to read the BBI testimony filed by Jonathon Sellar where these disagreements are discussed at length. However, we can assure our customers that the sensational assertions are simply not true.

The Gazette states in its opinion "that in a recent guest opinion by BBI, CEO Steve Boulton said that NorthWestern will need higher rates from Montana customers." The Gazette missed the point of what Boulton wrote, and the statement is incorrect and out of context. Again, we invite people to read the guest opinion for themselves, but he was referring to the well-known fact that Montana's utility is not earning its authorized rate of return. The actual sentence reads: "If the PSC agrees that a rate adjustment is necessary, it will only allow NorthWestern to adjust for known and measurable changes in the cost of doing business — regardless of who owns the company."

We agree with The Gazette on one point: This is a question of trust. The Gazette ignored the facts we provided and chose to base its opinion on errors and omissions. We doubt that the decision was reached after a careful examination of all facts. Had it done so, we believe the board would have come to the same conclusion every other intervenor (those who have been examining all the facts) reached: The sale could and/or should be approved with certain conditions.

In fact, the MCC's expert witness — who was quoted in The Gazette opinion — has outlined seven conditions for approval of which NorthWestern and BBI agree with most. We hope to work through our differences with the recommendations and reach an amicable agreement we can all live with.

So, in light of the facts, how is The Gazette's opinion in the best interests of our customers and Montana? We invite you to understand the facts for yourself and form your own opinion.

Mike Hanson is chief executive officer for NorthWestern Energy.